

IOWA CAPITAL INVESTMENT BOARD 2015 ANNUAL REPORT

BACKGROUND

The Iowa Capital Investment Board (“Board”) was established in 2002 by an Act of the General Assembly (2002 Iowa Acts, House File 2078). The Board is created as a state governmental board. The purpose of the Board is to mobilize venture equity capital for investment that will result in a significant potential to create jobs and to diversify and stabilize the economy of the state of Iowa.

The Board consists of five voting members and four nonvoting members. The five voting members are appointed by the Governor and subject to confirmation by the Senate. The four nonvoting members consist of one member each appointed by the Majority Leader of the Senate, the Minority Leader of the Senate, the Speaker of the House and the Minority Leader of the House. The Board is a public board subject to public notice and open meetings. A listing of the voting and nonvoting members of the Board is attached to this report.

The primary duties of the Board include the following:

- 1) Develop a system for issuance, registration and authorization of tax credits for investments in qualifying businesses and community-based seed capital funds as provided in Iowa Code section 15E.43. This program provides for a tax credit equal to 20% of the equity investment in a qualifying business or community-based seed capital fund. The tax credit was capped at \$10 million, and this cap was reached in January 2008. The Board has not issued any tax credits since January 2008 related to this tax credit program. This program was renewed by the Iowa legislature in 2011 as part of 2011 Iowa Acts, Senate File 517.
- 2) Establish a system for the issuance and redemption of tax credits for investments in venture capital funds as provided in Iowa Code section 15E.51. This program provides for a tax credit equal to 6% of the equity investment in a venture capital fund. This tax credit was repealed by the legislature as part of 2010 Iowa Acts, Senate File 2380. The last tax credit certificates for this program were issued in September 2010.
- 3) Establish criteria and procedures for the issuance, transfer and redemption of contingent tax credits for investments made in the Iowa Fund of Funds administered by the Iowa Capital Investment Corporation as provided in Iowa Code section 15E.66. The maximum contingent tax credit that could be issued totaled \$60 million. 5% of this credit, or \$3 million, was reserved for programs related to loan guarantees and other credit related enhancements to rural and small business owners. The remaining contingent credit available totaled \$57 million.

Therefore, the only current activity of the Board relates to the contingent tax credit certificates for investments made in the Iowa Fund of Funds. The activities of the Board during 2014 related solely to the contingent tax credit certificates related to investments in the Iowa Fund of Funds. During 2014, the Board issued \$7,248,752 of redeemable tax credits.

SETTLEMENT – IOWA FUND OF FUNDS

The Board had approved the issuance of a \$57 million contingent tax credit certificate in February 2011 related to investments in the Iowa Fund of Funds with a final maturity date of February 22, 2012. This allowed the Iowa Fund of Funds to secure \$40 million of financing from Regions Bank and the Bank of Oklahoma (the lenders) through a line of credit that was available until February 2012.

The Board had been advised in late 2011 that the \$40 million financing secured by the contingent tax credits may not be renewed in February 2012. The lenders agreed to extend the financing of the line of credit beyond February 2012, and negotiations commenced between the Iowa Capital Investment Corporation, the Fund of Funds, the Board and the lenders to reach a resolution of this matter. An agreement was reached in August 2012 among all parties involved in the Iowa Fund of Funds tax credit program. The Board agreed to the issuance of a verified tax credit of \$25,595,383, and a contingent tax credit was issued to the lenders for the difference between the \$57 million and the \$25,595,383, or \$31,404,617. In addition, a Tax Credit Sales Agreement was reached whereby the lenders will sell \$4 million of tax credits each year over the next six to eight years. These credit sales will first be offered to corporations who entered into an agreement with the Iowa Designated Investor, Inc. to purchase these tax credits. The proceeds from these tax credit sales will go to the lenders to satisfy their loans. This enabled the lenders to continue to advance funds to the Fund of Funds when capital calls are required and to pay expenses. In addition, distributions received from the Iowa Fund of Funds related to their investments will also go the lenders to satisfy their loans.

In addition, the State of Iowa now has a subordinated note whereby after the lenders' debt has been satisfied, the state will be reimbursed for the tax credits that have been issued, as well as reimbursement for outside attorney fees and a .5% fee for expenses in issuing and selling tax credits. The State will receive interest on these amounts until they are satisfied.

2013 LEGISLATION

As part of 2013 Iowa Acts, Senate File 452, sections 129-131, the Iowa legislature passed legislation to reflect the terms of the settlement between all the parties related to the wind down of the Fund of Funds Program. Some of these provisions included the following:

- The Iowa Fund of Funds cannot make new investments in private seed and venture capital partnerships or entities.
- A designated investor cannot make any investment in the Iowa Fund of Funds unless such investment was required by the Agreement.
- No additional tax credits will be issued, redeemed or verified unless required by the Agreement or deemed necessary by the Director of Revenue and the Iowa Attorney General's office.
- No new fund managers can be involved in the Fund of Funds program.
- Tax credit certificates can no longer be pledged as security for a loan unless provided in the Agreement.

- The \$3 million of credits reserved for loan guarantees and credit related enhancements on loans to rural and small business borrowers has been repealed.
- The Iowa Capital Investment Corporation will assist the Iowa Capital Investment Board, the Department of Revenue, and the Attorney General's office in winding down the Fund of Funds program.
- Any investment returns for the Fund of Funds in excess of the rate guaranteed to investors will be deposited in the general fund of the state of Iowa after the revolving debt is satisfied.
- The issuance of contingent and verified tax credit certificates related to the Fund of Funds program is to be governed by the Agreement.
- The Fund of Funds program will be repealed on the expiration or termination of the Agreement or December 31, 2027, whichever is the later.

ACTIVITIES DURING 2015

The Board only held one meeting in September 2015. The Board was updated on the amount of tax credits sold, loan balances, and distributions received by the Iowa Fund of Funds.

TAX CREDIT CERTIFICATES

As noted above, the Board has not issued any tax credit certificates related to the tax credit for investments in qualifying businesses, community-based seed capital funds, or venture capital funds since 2008. Therefore, there are no changes from the 2010 report to the list of qualifying businesses, community-based seed capital funds, venture capital funds, and tax credits issued to each of investors in each of these businesses and funds.

Iowa Fund of Funds

During 2015, the Board did not issue any redeemable tax credits. The total of redeemable tax credit certificates as of December 31, 2015 remains at \$24,068,632 of the total available credits of \$25,595,383. The amount owed related to the State's subordinated note is currently \$27,285,499.19 as of December 31, 2015.

FUTURE ACTIVITY

The Board will maintain its ongoing role to facilitate the sale of tax credits in accordance with the Tax Credit Sales Agreement.

IOWA CAPITAL INVESTMENT BOARD (ICIB)

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Term ends April 30, 2016

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LEGISLATIVE MEMBERS (NON-VOTING)

Senate:

Randy Feenstra – Hull

Term ends January 8, 2017

Jeff Danielson – Cedar Falls

Term ends January 8, 2017

House:

Chris Hall – Sioux City

Term ends January 8, 2017

Mike Sexton – Rockwell City

Term ends January 8, 2017

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